US Agency for International Development
Study of Innovative Practices in SME Finance

Case Study: Centenary Rural Development Bank (Uganda)

Upscaling into the SME Market

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Background

This paper is part of a six-study series that was conducted by the U.S. Agency for International Development (USAID), with assistance from Deloitte Touche Tohmatsu. The purpose of the study series is to identify and document innovative practices in SME financing. The information for this study was obtained from on-site visits and interviews with management of each of the organizations. The interviews were conducted by Suzanne Nolte Saunders of USAID's Economic Growth, Agriculture and Trade Bureau, Office of Economic Growth, with assistance from Teresa Mastrangelo of Deloitte Touche Tohmatsu for the Uganda and South Africa cases and from Maribeth Murphy of Deloitte Touche Tohmatsu for the Chile case. For more information on the overall series or to find the other study documents, please go to http://www.usaid.gov/economic_growth/egat/eg/tech-financial

Acknowledgments

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List of Selected Interviews:

- Ben Eyabu, Credit Supervisor, Centenary Rural Development Bank
- Katimbo-Mugwanya E., Executive Director, Supervision, Bank of Uganda
- Philip W. Morris, Resident Banking Advisor, Governor, Bank of Uganda
- Mwanje Charles Mark, Commercial Loans Officer, Kampala Branch, Centenary Rural Development Bank
- Willeboard Okecho, General Manager, Credit, Centenary Rural Development Bank Limited Remy Ssali, General Manager, Operations, Centenary Rural Development Bank
- Jack Thompson, Chemonics International, SME Finance Advisor, SPEED Project

Note: Ms. Grace Bakunda, Credit Division, and Mr. Hung Linh, Chief Executive, were not available for interviews, but commented on the case study draft.

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I. Introduction

Centenary Rural Development Bank (CERUDEB) is a licensed commercial bank in Uganda that offers economically disadvantaged Ugandans[1] a full range of financial services including savings, credit, and funds transfer services. CERUDEB serves over 300,000 depositors, primarily in the rural areas of the country with a network of 18 branches. The bank has total assets of UGX 87.6 billion (US$49 million) and a capital base of UGX 11.8 billion (US$6.7 million).[2]

CERUDEB is considered a microfinance lender – 80 percent of its loan portfolio is micro – although it differs from other microfinance institutions (MFIs) in the Ugandan market because it operates profitably as a bank. In addition, CERUDEB's principal lending methodology, lending to individuals, distinguishes its processes from the group lending approach taken by other MFIs. It is fairly alone in the market, operating between the three "large" corporate-oriented commercial banks and the smaller, "family" banks.

While at least one commercial bank, Uganda Commercial Bank (now Stanbic) does provide some SME lending, during interviews CERUDEB management cited its main competitor in the SME sector as DFCU Leasing, the subject of another case study in this series. DFCU offers a different product, asset financing, and for a longer term, two to five years, which may be more attractive to the SME market segment than the upscaled products offered by CERUDEB.

The bank's SME portfolio, defined as loans that range between UGX 3 million and UGX 425 million, has grown during recent years as its customers have grown. While only 20 percent of the portfolio as of June 2002, CERUDEB anticipates the greatest growth in the next three years to come from this market segment. CERUDEB management see the opportunities for growth to come not only from its existing customers, but believes that its prudent lending process and its customer relationship management will allow the bank to attract other small business borrowers.

The purpose of this case study is to describe CERUDEB's "innovation" introduced in 1993, of individual lending, and the advantages this lending method has for the bank's "upscaling" from microenterprises to SME customers. The case study will cover the Ugandan banking environment in which CERUDEB operates, provide a discussion of the background of the bank, discuss its strategic plan and vision for growth from 2001 to 2005, and describe its lending and monitoring processes, with particular focus on its lending officer incentive scheme. The study concludes with a discussion on how USAID missions and other donors might incorporate aspects from this case into their program designs.

The study is based upon a site visit to Uganda in June 2002, which included interviews with top management (with the exception of the Chief Executive) and three clients, as

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1 The bank defines economically disadvantaged Ugandans as average Ugandans whom are poor according to World Bank poverty standards, but with viable business projects.
2 1 USD = 1,760 UGX

well as with the Bank of Uganda and advisors from the USAID-funded Uganda SPEED project. The authors also used the bank's annual reports, 2001-2005 business plan, and marketing literature in the case study preparation. Bank management had an opportunity to comment on the case study.

II. The Banking Environment in Uganda[3]

Since 1986, Uganda has experienced political stability under the presidency of Yoweri Museveni that in turn, has allowed economic development to proceed. Museveni is leading an aggressive reform program, which resulted in average real growth rates of six percent of GDP during the 1990s. The Economic Recovery Programme, begun in 1987, has not yet created affordable credit for all sectors of the economy and there is still work to be done to achieve an efficient banking system. A new financial institutions bill has been introduced and is expected to be enacted by December 2002.

The financial sector includes 16 commercial banks, eight credit institutions, two development banks, and 18 microfinance institutions. The structure of the financial sector includes large commercial, foreign owned banks: Barclays Bank of Uganda, Stanbic Bank Uganda (the recently privatized Uganda Commercial Bank and the largest bank), Citibank, and Standard Chartered Uganda. There are two other foreign commercial banks: Bank of Baroda and Tropical Africa Bank, as well as six local commercial banks. Most of these banks, however, do not have much of a branch network outside of the cities of Kampala and Jinja. Furthermore, many of the banks service only specific sectors of the economy. CERUDEB and Stanbic are the only banks offering widespread services to the "average" Ugandan.

1997 through 1999 marked a period of banking crisis during which the government-owned Uganda Development Bank collapsed and four other commercial banks were closed. The surviving banks acquired a significant increase in deposits. In addition, in the period following the collapse, government Treasury bill (T-bill) rates skyrocketed. It is an under banked market – liquidity is high, due in great part to the decision by the large banks to invest in T-bills rather than seeking to expand their loan portfolios during the past two years. Because earnings from T-bills dominated banking income, commercial bank lending to the private sector did not grow in 2000, and in 2001 grew at a very small rate, 1.4 percent, according to the Bank of Uganda. CERUDEB itself hac only extended 31 percent of its lending capacity by mid-2002 and had UGX 37 million of their assets in T-bills at the end of 2001.

SMEs as a sector have been neglected by the banks. In addition to CERUDEB, the only other market participant lending to SMEs is Uganda Commercial Bank (Stanbic). However, the only significant financing on a commercial basis is DFCU Leasing. The foreign commercial banks focus on key corporate customers and do not have the mandate, or perhaps the expertise, to target the SME segment. The smaller commercial banks are family owned and engage in relationship lending, limiting the access by a broader range of SMEs. The development banks, East African Development Bank and

[3] This section draws heavily from *Uganda: EIU Country Profile*, The Economist Intelligence Unit, 2002.

Development Finance Corporation of Uganda (DFCU), are providing some long-term lending (the percentage of SMEs served is not available). Some commercial MFIs are providing lending to their customers who have grown, but that is said to be minor.

Additional support for SMEs is being provided through donor programs. There is a significant amount of donor activity in Uganda; both short-term and long-term development assistance accounts for approximately $500 million per year. The Economic Recovery Programme has received support of the major international financial institutions, the World Bank and the International Monetary Fund (IMF), as well as several bilateral donors including the UK (DfID), Germany (GTZ), the US (USAID) and the EU (SUFFICE).

Of note is the USAID's Uganda SPEED project, which is providing a $30 million loan guarantee program for SME lending, using the Development Credit Authority. To increase the flow of finance to SMEs, SPEED is training commercial bank staff and developing new products (such as assisting DFCU Leasing to open rural leasing centers). In addition, SPEED provides training to SME clients in packaging financing applications (including to CERUDEB) and developing the Grow Your Business program to assist businesses in two cities other than Kampala in business planning, financial management, and export marketing. USAID's IDEA project is also supporting financing to the agricultural SME sector.

III. Background

The origins of the bank stem from an initiative of the Uganda National Council of Lay Apostate in the early 1980s designed to promote the provision of a range of appropriate financial services to the rural population of Uganda. In 1983, the Centenary Rural Development Trust was registered as a financial institution and operations commenced in 1986. The Trust was transformed into a commercial bank in 1993. The Bank's current shareholders include: the Uganda Catholic Secretariat; the Catholic Dioceses of Uganda; the Development Finance Company of Uganda; Hivos-Triodos Fond; and SIDI, a French investment company. The bank has 18 branches—10 branches were acquired in 1999 due to the closure of Co-Operative Bank, two branches were opened during 2001 and two more are planned for 2002.

As of December 31, 2001, CERUDEB had deposit accounts with a value of UGX 68 billion (US$38.6 million), an increase of 33 percent from the previous year. The Bank has also extended over 18,000 loans to small-businesses with a value of over UGX 20.1 billion (US$11 million). With respect to financial performance, the results for the full-year 2001 were the most successful in Centenary's history, with profits of UGX 5.18 billion (US$ 2.9 million), an increase of 69 percent from previous year levels. Total assets for year-end 2001 were UGX. 87.68 billion (US$ 49.8 million). The arrears for loans of December 31, 2001 was 2.11 percent, compared to the previous years' rate of 2.97 percent. This compares with the overall rate for the country of 8.2 percent in 2001.

CERUDEB is an example of a mainstream bank achieving both financial sustainability and targeting poor people. CERUDEB's target client groups include rural inhabitants, small-holder farmers, the economically-active poor and other disadvantaged groups, especially women. Through surveys conducted by Hivos and MicroSave, the main reasons for these customers using CERUDEB's financial services were identified as the low barriers to entry including a minimum savings deposit balance of UGX 10,000 (US$ 6) and the minimum loan amount of UGX 50,000 (US$ 30).

While many NGO-based microfinance institutions (MFIs) may offer similar small credit amounts, in general they are prohibited by Ugandan banking legislation from on-lending voluntary savings deposits; also these MFIs often do not extend credit for agricultural purposes, nor do they possess the financial strength or branch network of Centenary. MFIs place their clients' deposits in the commercial banks and use, instead, shareholders' funds or donor funding for loans. Increasingly, they are using their clients' deposits as security to borrow from commercial banks, a practice which in spirit, places those deposits at risk.

IV. Existing Products

CERUDEB offers a range of savings and credit products. For small and medium businesses, CERUDEB offers savings accounts, fixed deposit products, and current account (checking) services. As of June 2002, the rates of interest being paid to depositors were:

Current accounts: 0 percent
Savings accounts: 2 percent
Time deposits: 3.5 to 5 percent
Foreign currency deposits: 2 percent

Interest income comprises the majority (72 percent in 2001) of operating income. The bank's primary credit products to SMEs are overdrafts and commercial loans for expansion purposes. As of June 2002, business loans are priced as follows:

Table 1: Business Loan Pricing

	Microfinance Portfolio (Up to less than UGX 5m)	Commercial (SME) Portfolio (From UGX 5m to less than UGX 100m)	Corporate Portfolio (From UGX 100m)
Application Fee	UGX 5000	UGX 5000	None
Acceptance Commission	2 %	2 %	1 – 1.5 %
Interest	22 % p.a. fixed	Prime of 16% plus points p.a. fixed*	Prime of 16 % plus points p.a. fixed
Monitoring Fee	2% p.m. first 3 loans	0.5% first 3 loans	None
	0.5% from 4th loan	None	
		None for loans of UGX 10 million (even for 1st loan)	
Overdrafts	3% p.m.	Same rate and fees as loans	Same rates as loans
Loans secured by Fixed Deposits	FD rates plus 8%	FD rates plus 8%	FD rates plus 8%

Source: CERUDEB

The best SME borrowers (i.e., those with excellent credit history of several 1/1 loans and substantial average deposit balances) are charged Prime plus five percent, while other regular borrowers are charged Prime plus six percent. The Head Office Credit Committee must approve any loans at Prime plus four percent or less.

The maximum loan term is 12 months, although the bankwide average is 6 to 8 months. Overall, the average loan size is US$600 bankwide. If Kampala loans are excluded, the average drops to $200.

Furthermore for agricultural loans, the seasonal nature of cash flow is reflected in payment schedule and a grace period is given. Agriculture makes up 13 percent of the lending portfolio. The data available does not distinguish between the micro sector and the SME sector.

CERUDEB instituted an innovative small-holder agricultural loan product. These credits are based on projected levels of agricultural production, have flexible repayment schedules and also take into account off-farm income. In contrast to business loans, CERUDEB's experience with maize loans (most of which were guaranteed 100 percent with PL480 funds) has had major problems. Interviews revealed that this may be both due to economic factors (low maize prices) as well as poor management practices. The Bank also makes larger loans to commercial farmers, which have experienced a lower arrears rate.

The bank also provides money transfer services including Western Union (transfer and international remittances) and fee-based money transfer services for Standard Chartered and Citibank in those areas where CERUDEB has a branch and others do not.

V. Credit and Monitoring Methodology

CERUDEB makes loans based upon the borrower's ability to repay from all sources of income, not solely on the business cash flow or on the borrower's collateral. Their credit analysis includes whole household income. In addition, the bank also takes non-traditional forms of collateral to supplement security requirements, such as chattel mortgages on common household assets.

Due to the fact that the best customers may be out of town -- for example, beverage depots; cooking oil producers; schools; highway contractors; transport (up to 10 buses) companies; textile manufacturers; construction materials manufacturers -- loan officers are provided a motorcycle by the bank and are expected to conduct business at the proprietors' home or business location, if needed.

Furthermore, CERUDEB loan officers rely nearly exclusively on the borrower interview to determine creditworthiness. This approach is labor intensive and fairly unique to the segment they serve. A good number of borrowers have scant records or inadequate financial records. Loan officers must cross check information with suppliers and customers. A family's disposable income must be estimated using CERUDEB's system for entering estimates and performing cash flow analysis.

Due to CERUDEB's individual (not group) approach to lending, the credit department now has nine years of credit data. Accordingly, the bank currently is undertaking a new initiative for the SME sector in credit scoring, which they hope to implement by 2002 year end.

The bank emphasizes a rapid approval rate. The credit committee meets every day at the branch level for the majority of loans up to UGX 4 million. The target approval time is seven days for new loans, three days for repeat customers. Upon approval, the loan officer holds a loan information session with borrower to explain his/her responsibilities. Then funds are disbursed into an account opened at CERUDEB. When the client takes a third loan, if they are interested in a fourth, that is recorded and the officer can make a determination for disbursal of the fourth loan; however, all loans must be approved by committee. Interviews revealed that the targets are substantially met.

To manage the loan portfolio, the bank has a computerized MIS system that allows management and the loan officers to track borrowers and aggressively manage those who have missed scheduled payments. Each loan officer is managing about 200 loans through the computerized network. During the first loan, every borrower is visited regularly and is photographed together with the loan officer. These photographs provide proof to the branch manager that adequate monitoring takes place, as well as physical proof of securities.

All borrowers have savings accounts. Five days in advance of the payment due date, the loan officer receives a report which provides the value of the borrower's account. The officer can match the payment due with the client's deposit balance and warn the borrower if there will not be sufficient funds. The MIS also provides a daily arrears report so that branch management may evaluate how each loan officer is managing their lending portfolio.

Various incentive schemes have been developed to encourage loan monitoring, including monthly incentives, year-end bonuses, and profit sharing. In addition to fixed, salary compensation, loan officers are also compensated on an incentive basis, based upon the performance of his/her borrowers, up to a maximum. (At least one loan officer interviewed has achieved maximum compensation based upon the performance of his portfolio.) The incentive portion is determined by the arrears rate, number of days taken to process loans, and portfolio growth. His/Her compensation is affected when even one loan is in arrears (on a one-day past due basis). Monthly incentives are eliminated when the officer's portfolio reaches a five percent non-performing ratio. If payment is past due 1 to 30 days, the loan officer visits the borrower or sends a reminder letter. After 30 days, the action taken is harsher. The bank moves to confiscate chattels and hires an auctioneer to dispose of those. However, the loan covenants include provisions for the borrower to have right of first refusal to buy the chattel and pay off what is due.

VI. Serving the SME Sector

As of mid-2002, only 20 percent of CERUDEB's clients are SMEs.[4] However, it is the fastest growing client segment. After the failures of several Uganda banks in 1998 and 1999, CERUDEB began receiving viable proposals from SMEs for business expansion loans. In addition, their good micro-business clients started to grow and demand more services (the bank is hence "upscaling" to follow its customers.)

SMEs (businesses with over five employees) make up about 97 percent of the Ugandan economy and account for about 50 percent of employment. The sector suffers from lack of access to finance, principally due to strict requirements for collateral required by commercial banks. CERUDEB's methodology for accepting non-traditional sources of security overcomes this constraint. Furthermore, this segment requires more effort on the part of loan officers, resulting in higher transactions costs. CERUDEB has been able to remain profitable despite the high transactions costs in the micro sector. The key to growth will be for the bank to maintain profitability while upscaling. CERUDEB management recognizes that bigger loans (defined by the bank as those over UGX 5 million) are less costly than smaller loans. For most SME borrowers, existing customer data may already exist, and accordingly, the bank may increase the lending volume of a single loan officer without much additional burden in the lending or monitoring process.

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[4] During each interview, there was discussion regarding the definition of small and medium business in Uganda versus microenterprises. Generally, it was agreed that the IFC definition of a business with more than five employees was appropriate in the Ugandan economic context.

Most loans are managed at the branch level. A separate "corporate" business unit located in the main branch in Kampala handles loans that are over $2,800. Branch managers are expected to organize outreach efforts to SMEs. They use chambers of commerce or traders associations to present the bank's services to SMEs. In addition, most recently, they have been using the services of two USAID projects to provide training to current and potential bank customers as an added promotional effort. SME lending fits into CERUDEB's overall strategy and into profitability and growth goals to the extent SMEs are considered economically disadvantaged Ugandans.

In 2002, CERUDEB management plans to earn UGX 15 billion from the SME market and plans to increase the percentage of its portfolio from SME borrowers to one-third. However, several constraints must be overcome, including increased technology needs to implement credit scoring and more sophisticated financial analysis, and lack of trained staff who specialize in SME lending. Another constraint faced by CERUDEB is limited staff retention and the mobility of their employees from bank to bank. Finally, Uganda's underdeveloped infrastructure (i.e., poor roads, limits of the payment system reach) also constrains the bank from reaching those regions significantly underserved (e.g., Lira, Arua, Hoima).

However, in Summer 2002, CERUDEB is rolling out new technology to better enable them to serve all customers, with a particular focus on acquiring more SME customers. In addition, CERUDEB management is trying to recruit new personnel with lending skills more suited to SMEs and the specialized risk analysis of SMEs.

Furthermore, it is of interest that some interviewed at CERUDEB see as their strongest competitor not another bank, but a leasing company. Others in bank management cite traditional banks as their competitor, but those banks have done little if any lending at all in the past two years. Bank staff stated that this is particularly true for their micro clients who have grown into SMEs. This indicates that, for business expansion, some SME borrowers are in need of funds for capital equipment, not working capital, and accordingly, the short-term nature of CERUDEB's products are not meeting all of their requirements.

VII. Business Plan 2001-2005

The Bank's strategy for achievement of their Mission, as stated in their Business Plan for 2001-2005, is:

> …to build on the successes realized to date, and to enable the Bank to better meet the financial service needs of the economically-active poor, rural inhabitants and other disadvantaged groups in Uganda, the Bank faces several challenges and opportunities during the Business Plan period 2001-2005.

These include:

- Maintaining a focus on serving the poor and rural inhabitants

- Increased use and integration of new technologies to increase efficiency and reduce operational costs, while enhancing our ability to make financial services available to our target client groups
- Rigorous control of operational expenses
- Developing new services and products that meet the financial needs of our core client groups, while ensuring acceptable levels of profitability for the Bank
- Continued attention at all levels of the Bank to ensure the highest possible asset quality levels for existing and new loan products

Principally, the fact that the Ugandan market is significantly underbanked and that, as of June 2002, CERUDEB itself has a 31 percent lending ratio, there is substantial opportunity for CERUDEB to expand its branch network and the range of financial services offered among the small business sector.

The Business Plan notes that the ability of savings systems to meet human needs fall into three categories: life cycle needs, emergencies, and opportunities. In response to this analysis CERUDEB states its commitment to provide an appropriate service to its customers:

> During the Business Plan period efforts will be made to further enhance the security and convenience of savings deposit services through the introduction of ATMs and other advanced technologies, such as the use of fingerprint technology, designed to increase convenience for our customers, reduce operational costs, and reduce the incidence of fraud. We will also seek support from our development partners to raise the public's awareness about the desirability of establishing and correctly maintaining savings accounts and credit relationships.

And with regard to credit methodologies and products:

> New products will be selectively developed after market research and internal return calculations have been made, and the appropriate credit policies and procedures developed.

Again, in response to the need to meet the twin challenge of achieving financial sustainability by serving SMEs and the business sector while also meeting the needs for small loans by poor people, CERUDEB, as part of its improved management information system (MIS) will be introducing “hand-held technologies which have the potential to increase the efficiency and accuracy of our credit operations, as well as providing a cost-effective means to capture important client-level information.”

As a parallel effort to the collection of client data through the Financial MIS, CERUDEB management has recently started to hold focus groups to present ideas for new products, and to gain existing and potential clients’ reactions to these. For example, it has recently introduced home improvement loans, and plans to do more focus discussions around insurance products, in particular drought insurance for smallholders.

Home Improvement Loan

CERUDEB's objectives in introducing the Home Improvement Loans are to expand the products available to customers who, as a result of growing their businesses, are seeking to upgrade their lifestyles. These loans are short-term loans with both regular and irregular repayments depending on individual cash flows of the customers' business. The loans will range from UGX 100,000 to UGX 10 million. CERUDEB intents to extent such loans to existing borrowers only. The purpose of the loan is to provide finance for homeowners who are occupying or in the process of constructing their own homes to improve their standard of habitation.

The maturity of the loan shall range from six months to a maximum of two years depending on the amount applied for, the purpose of the loan, and the capacity of the customer to service the loan. The loans offered under the Pilot Program will carry an interest rate of 22 percent per annum. Acceptance commission of two percent will be charged up-front on the Loan Principal Amount disbursed. The Loan amount shall not exceed 70 percent of the forced sale value of the asset to be improved.

In addition to introducing new products to serve the entrepreneur of a small business, CERUDEB is actively involved in providing loanable funds to the MFIs, as are the other major commercial banks in Uganda. Donors have adopted a more restrictive policy in terms of loanable funds. The MFIs have been successful in proving their credítiworthiness to the Ugandan commercial banking market, resulting in their increased ability to raise funds.

VIII. Technical Assistance

Since 1993, the Bank has received considerable support from the donor community. The bank has had extensive technical assistance and is currently managing UGX 629 million for on-lending to its customers as follows:

- Funds from DANIDA for rural credit in the region of Rakai
- Funds from the PAPSCA program to develop small-scale rural enterprises in Jinja, Inganga, Mukono, and Mpigi
- A revolving facility from UNCDF to increase savings and credit services to people engaged in micro and small economic activities in the West Nile Region.

Development partners who have funded various activities have included: Austrian Regional Bureau; the British Council; DfID; CGAP; CRS; DANIDA; the European Development Fund; FMO; the German Savings Bank Foundation; GTZ; MISEREOR; UNCDF; USAID; and AFD. As of June 2002, CERUDEB receives technical assistance support from DfID in the form of a credit and an operations advisor; training funds from AFD; and support for agricultural lending activities from USAID through the IDEA project.

In addition, CERUDEB is currently negotiating terms and conditions with the DfID Challenge Fund for computerization and rollout of their on-line system. The USAID SPEED Project is providing training to CERUDEB's SME clients, at the bank's request, in formalizing their businesses as they move from "hobby" to business. In addition, eight loan officers have attended SPEED's SME Lending Training Program, now being offered by the Uganda Institute of Bankers.

IX. Conclusion

During the interviews conducted in Uganda, it was confirmed that there is significant unmet demand for SME finance in the country. While the demand for microenterprise finance over the past decade seems to be met by MFIs and by CERUDEB, SME finance remains a gap. The biggest obstacles seem to be inflexible requirements for collateral and negative perceptions regarding the riskiness of SME borrowers on the part of the commercial banks as well as lack of skills by loan officers and SME managers.

Donors and banks wishing to downscale operations could use the example of CERUDEB's individual lending methodology, when designing SME finance projects to encourage MFIs "to upscale" or large commercial banks "to downscale" to serve the SME market. In our research, we found that at least one large commercial bank in South Africa had adopted CERUDEB's lending methodology as part of its strategy to reach out to newly emerging black businesses.[5] To duplicate the model, however, there must be sufficient demand for financing to afford the interest rates, which must be set sufficiently high to cover the high transactions costs. Once competition enters the market, SME customers may quickly shop around for lower financing alternatives.

There appears to be a pervasive lack of knowledge and skills in SME lending (both credit analysis and risk management) within the MFIs and the commercial banks. CERUDEB management has found that the technology and skill development requirements for upscaling are significant. The ability to design, implement and manage new savings and credit products for the SME sector relies on more extensive financial analysis skills and more extensive systems support for the loan officer. Successful donor projects in the past have assisted with the training of loan officers and the development of bank training institutes. This type of intervention should continue.

The labor-intensive nature of CERUDEB's lending methodology may still be necessary even in the SME segment. If SME managers have poor financial management skills, business records must be created. Lending officers must assemble and register collateral from movable assets. It is likely that the lending officers are not able to undertake this type of labor-intensive work at an interest rate which doesn't create an undue burden on the cash flows of SME businesses. Credit scoring may facilitate the lending process in part and a USAID project could assist to develop a credit reporting system. Based upon interviews outside of CERUDEB and in other markets, we conclude that donors or lendings should consider funding mentoring or development of business consulting skills

[5] First National Bank's Growth Assist program

to accompany the lending process, and, as a result, shift the burden of preparing financial statements and assembling security to the entrepreneur.

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